

## Message Text

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ACTION ARA-14

INFO OCT-01 EUR-12 ISO-00 A-01 OPR-02 CIAE-00 COME-00

EB-07 INR-07 LAB-04 NSAE-00 SIL-01 DODE-00 PM-04

H-01 L-03 NSC-05 PA-01 PRS-01 SP-02 SS-15

USIA-06 FEA-01 ERDA-05 AID-05 CEA-01 EPG-02

FPC-01 INT-05 OMB-01 OES-07 STR-04 TRSE-00

ACDA-07 /126 W

-----102038Z 023537 /75

R 101408Z JUN 77

FM AMEMBASSY CARACAS

TO SECSTATE WASHDC 7982

INFO AMEMBASSY BOGOTA

AMEMBASSY LA PAZ

AMEMBASSY LIMA

AMEMBASSY MADRID

AMEMBASSY OTTAWA

AMEMBASSY QUITO

USCINCSO QUARRY HEIGHTS

USCINCLANT NORFOLK VA

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E.O. 11652: N/A

TAGS: PFOR, ENRG, PINT, PINS, ETRD, EGEN, VE, CO

SUBJECT: THIS WEEK IN VENEZUELA

REF: CARACAS 5567 (NOTAL)

GOVE ATTACHES GREAT IMPORTANCE TO MRS. CARTER'S VISIT.

GOV DEFENDS OIL SERVICE CONTRACTS. PUBLIC AWARENESS

ABOUT EXTERNAL PAYMENTS SITUATION INCREASES.

CANADIAN AND SPANISH COMPANIES APPEAR TO HAVE WON

BILLION DOLLAR RAILROAD CONTRACT. GOV DECIDES TO DROP

EIGHT CYLINDER CAR ENGINE MANUFACTURE. CATTLEMEN FAULT

GOV FOR LACK OF PROTECTION. POLICE DENY SENSATIONALIST

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CARACAS NEWSPAPER CLAIM THAT THERE HAS BEEN A RESUMPTION

IN NEGOTIATIONS BETWEEN THE NIEHOUS KIDNAPPERS AND

OWENS-ILLINOIS. FATE OF TAX REFORM PROPOSALS IN DOUBT.

END SUMMARY.

1. GOV PLACES GREAT IMPORTANCE IN MRS. CARTER'S VISIT.

PRIOR TO MRS. CARTER'S JUNE 10 ARRIVAL IN CARACAS, FOREIGN MINISTER RAMON ESCOVAR SALOM TOLD THE PRESS THAT THE GOV PLACES GREAT IMPORTANCE IN THE VISIT. HE SAID, "WE ARE GOING TO RECEIVE HER WITH OPEN ARMS, RESPECT, AND ESTEEM BECAUSE WE THINK THAT THE VISIT OF MRS. CARTER IS A DEMONSTRATION OF THE GREAT INTEREST OF THE UNITED STATES IN LATIN AMERICA." THE GOV HAS GONE ALL OUT IN COOPERATING WITH THE EMBASSY IN PREPARATIONS FOR THE VISIT.

## 2. GOV DEFENDS TECHNICAL SERVICE CONTRACTS.

RESPONDING TO A CONCERTED LEFTIST CAMPAIGN AGAINST THE CONTRACTS UNDER WHICH THE EX-CONCESSIONAIRES PROVIDE TECHNICAL SERVICES TO THE NATIONALIZED OIL INDUSTRY, PETROLEOS DE VENEZUELA PRESIDENT GENRAL RAFAEL ALFONSO RAVARD INSISTED IN A FOUR HOUR CLOSED SESSION OF THE JOINT CONGRESSIONAL COMMISSION ON MINES THAT THESE CONTRACTS WERE A MAJOR FACTOR IN THE CONTINUED NORMAL OPERATION OF THE INDUSTRY. HE DENIED NUMBER OF THE CHARGES MADE EARLIER, BUT ACKNOWLEDGED THE CONTRACTS WERE CONFIDENTIAL, SAYING THAT THEIR RELEASE, EVEN IN PART, WOULD PLACE VENEZUELA'S OIL INDUSTRY AT A COMMERCIAL DISADVANTAGE VIS A VIS THOSE OF OTHER NATIONS. PETROLEOS WAS, HE SAID, ALWAYS WILLING TO PROVIDE INFORMATION ON THESE CONTRACTS TO APPROPRIATE GOVERNMENT INSTITUTIONS. AD POLITICIANS JOINED IN DEFENDING THE CONTRACTS AS NECESSARY AND PROPER, MOST LEFTIST PARTIES CALLED FOR FURTHER INVESTIGATIONS, WHILE COPEI, LIMITED OFFICIAL USE

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THE MAJOR OPPOSITION PARTY, INDICATED IT WAS STILL NOT FULLY SATISFIED. IT APPEARS THAT THE MINISTER OF ENERGY WILL ALSO BE CALLED ON TO APPEAR BEFORE THE COMMISSION.

## 3. GROWING AWARENESS ABOUT EXTERNAL PAYMENTS SITUATION.

VENEZUELANS ARE BECOMING INCREASINGLY AWARE THAT THEIR COUNTRY MAY BE ENTERING A PERIOD OF BALANCE OF PAYMENTS DEFICITS CAUSED IN LARGE PART BY THE DRAMATIC INCREASE IN DEMAND FOR IMPORTS BOTH FOR CONSUMPTION AND INVESTMENT. ON JUNE 8, THE CHAMBER OF COMMERCE OF CARACAS MADE PUBLIC A SPECIAL STUDY REPORTEDLY SHOWING THAT THE VALUE OF FOOD IMPORTED DURING THE PERIOD 1976-76 ROSE 333 PERCENT AND IMPORTS GENERALLY BY 350 PERCENT. FEDECAMARAS, THE VENEZUELAN ASSOCIATION OF CHAMBERS OF COMMERCE, NOW ESTIMATED THAT THE VALUE OF IMPORTS DURING 1977 MAY REACH BS.35 BILLION, AN INCREASE OF 20 PERCENT OVER 1976. THE CENTRAL BANK OF VENEZUELA HAS EXPRESSED ITS CONCERN AND HAS ANNOUNCED THAT IT IS STUDYING WAYS TO REDUCE THE DEMAND FOR

IMPORTED GOODS AND SERVICES. A SPECIAL GOV  
COMMITTEE, INCLUDING, BUT NOT LIMITED TO, THE MINISTRIES  
OF FINANCE AND DEVELOPMENT, THE CENTRAL BANK AND CORDIPLAN,  
IS TO BE ESTABLISHED TO COORDINATE AND CONTROL IMPORTS  
BY PUBLIC SECTOR AGENCIES.

COMMENT: WHILE IT IS PROBABLY TRUE THAT VENEZUELA  
WILL INCUR DEFICITS IN ITS BALANCE OF PAYMENTS FOR THE  
NEXT SEVERAL YEARS, THIS IS NOT AN UNEXPECTED DEVELOP-  
MENT. THE ARRANGEMENTS FOR FINANCING MAJOR PLAN V  
PROJECTS ALWAYS ASSUMED A GRADUAL DRAWDOWN OF RESERVES  
WHICH ACCUMULATED RAPIDLY AFTER 1973. WITH INTER-  
NATIONAL RESERVES SUFFICIENT TO FINANCE 15 MONTHS OF  
IMPORTS, AND AN ABILITY TO BORROW ABROAD WHICH IS THE  
ENVY OF MANY MORE DEVELOPED NATIONS, VENEZUELA SHOULD  
HAVE NO PROBLEM FINANCING ANY DEFICIT OCCURING DURING  
THE NEXT FIVE YEARS. WITH THE TRANSITION FROM SURPLUS  
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TO DEFICIT TAKING PLACE AT THE BEGINNING OF THE 1978  
PRESIDENTIAL CAMPAIGN, THE FULING AD PARTY MAY FIND IT  
DIFFICULT TO EXPLAIN THE SITUATION TO AN ELECTORATE  
WHICH HAS BECOME ACCUSTOMED TO LIFE IN AN OIL RICH COUNTRY.

4. CANADIAN AND SPANISH COMPANIES APPEAR TO HAVE WON  
BILLION DOLLAR RAILROAD CONTRACT.

IT NOW APPEARS THAT THE BILLION DOLLAR RAILROAD PROJECT  
WILL BE SPLIT BETWEEN THE TWO LOW BIDDERS, CANADA AND  
SPAIN, WITH 20 PERCENT, I.E., EARTH MOVING AND GENERAL CONSTRUC-  
TION, TO BE PARCELED OUT AMONG VENEZUELAN CONTRACTORS.  
THIS WAS THE APPARENT RESULT OF THE VISIT LATE LAST WEEK  
BY CANADIAN MINISTER OF TRADE AND DEVELOPMENT, JEAN  
CHRETIEN, AND SPANISH MINISTER OF INDUSTRIES, PEREZ  
DE BRICIO. THE LATTER IS RETURNING THIS WEEK TO VISIT

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USIA-06 FEA-01 ERDA-05 AID-05 CEA-01 EPG-02  
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ACDA-07 /126 W

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R 101408Z JUN 77  
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TO SECSTATE WASHDC 7983  
INFO AMEMBASSY BOGOTA  
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AMEMBASSY LIMA  
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VARIOUS INDUSTRIAL SITES AROUND THE COUNTRY. THE CANADIAN MINISTER OF PUBLIC WORKS, MR. JUDD BUCHANAN, ARRIVED OVER THE WEEKEND. HE WAS INVITED BY MINISTER OF ENVIRONMENT, JOSE GABALDON, WHEN HE WAS IN CHARGE OF THE PUBLIC WORKS MINISTRY. DURING HIS 10-DAY VISIT, BUCHANAN MET WITH MINISTER OF TRANSPORT & COMMUNICATIONS VIVAS CASANOVA, AND INSPECTED VARIOUS PROJECTS, INCLUDING PETROCHEMICAL AND OIL FACILITIES IN MARACAIBO. PRESS REPORTS ABOUT MR. BUCHANAN'S VISIT ALLUDED TO POLLUTION CONTROL AND CANADIAN EXPERIENCE IN TAR BELT EXTRACTION TECHNOLOGY.

5. GOV DECIDES TO DROP 8-CYLINDER CAR ENGINE MANUFACTURE.  
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FOR CONSERVATION ENDS, THE GOV DECIDED JUNE 7 TO LIMIT PROPOSED LOCAL AUTO ENGINE MANUFACTURE TO FOUR AND SIX CYLINDER MODELS, ELIMINATING THE PROJECT FOR EIGHT CYLINDER ENGINES. AS A RESULT, THE MUCH DISCUSSED GOV PROGRAM TO INTEGRATE AND RATIONALIZE THE LOCAL AUTO INDUSTRY WILL GO BACK TO THE DRAWING BOARD. THE MINISTERS OF INFORMATION AND DEVELOPMENT REFERRED TO AN OUTLINE OF THE NEW POLICY WHICH HAS A FOURFOLD OBJECTIVE OF MORE COMPLETE STANDARDIZATION OF AUTO MODELS TO BE MANUFACTURED HERE, REDUCTION OF VEHICLE COST, REDUCTION OF AUTO EXHAUST POLLUTION, AND CONSERVATION OF GASLINE. THE LATTER OBJECTIVE IS PROBABLY THE PRIMARY REASON FOR THE GOV'S DECISION, WITH THE EXPECTATION OF

SAVING 30 PERCENT OF CURRENT AND PROJECTED GASOLINE CONSUMPTION.

6. CATTLEMEN FAULT GOV FOR LACK OF PROTECTION.

IN THE WAKE OF THE KIDNAP/MURDER OF ZULIA RANCHER NELSON MACHADO LUGO (REFTEL), VENEZUELAN CATTLEMEN'S ASSOCIATIONS MET THIS WEEK TO DEMAND GREATER PROTECTION FROM THE GOV. THEY POINTED OUT THAT THEY ARE PARTICULARLY VULNERABLE TO ATTACK BY GUERRILLAS AND OUTLAWS SINCE THEIR RANCHES ARE IN SPARSELY SETTLED AREAS OF THE COUNTRY, SUCH AS THE VENEZUELA-COLOMBIA BORDER ZONE. THREE OF THE LAST FOUR KIDNAPPINGS HERE HAVE INVOLVED RANCHERS. INTERIOR MINISTER OCTAVIO LEPAGE RESPONDED FOR THE GOV SAYING, "THE CATTLEMEN ARE NOT ONLY DRAMATIZING BUT EXAGGERATING THE GRAVITY OF THE PROBLEM." IN A TV MESSAGE JUNE 7, LEPAGE INSISTED THAT FURTHER MEASURES WERE BEING TAKEN TO COMBAT CRIME IN THE RURAL AREAS, INCLUDING CLOSER COOPERATION WITH THE COLOMBIAN AUTHORITIES. THE HEAD OF MILITARY INTELLIGENCE (DIM) ALSO REFUTED A CHARGE MADE AT THE NATIONAL CATTLEMEN'S COUNCIL THAT GUERRILLA GROUPS HAD INFILTRATED THE NATIONAL GUARD. OPPOSITION COPEI LEADERS ANNOUNCED LIMITED OFFICIAL USE

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THEY WOULD SEEK TO DEBATE THE QUESTION OF RURAL INSECURITY IN THE CONGRESS, BRINGING THE PREDICTABLE REACTION FROM THE GOVERNING AD PARTY THAT THE OPPOSITION WAS TRYING TO EXPLOIT THE ISSUE FOR PARTISAN REASONS. IN A SEPARATE BUT RELATED DEVELOPMENT, AD SECRETARY GENERAL LUIS PINERUA ORDAZ CALLED ON OPPOSITION PARTIES TO JOIN AD IN APPROVING LONG PENDING LEGISLATION TO ESTABLISH A UNIFIED COMMAND AND COORDINATION OF THE NATION'S POLICE FORCES AS A MEANS OF COMBATTING CRIME.

7. CARACAS NEWSPAPER CLAIMS NEOGITATIONS FOR NIEHOUS' RELEASE UNDER WAY.

CARACAS TABLOID ULTIMAS NOTICIAS REPORTED JUNE 6 THAT NEGOTIATIONS BETWEEN THE KIDNAPPERS OF U.S. INDUSTRIALIST WILLIAM NIEHOUS AND OWENS-ILLINOIS FOR NIEHOUS' RELEASE HAVE BEEN UNDER WAY IN THE U.S. SINCE THE MIDDLE OF MAY. THE NEWSPAPER CITED A LOWER LEVEL OFFICIAL IN THE INTERIOR MINISTRY'S SECURITY POLICE (DISIP) AS THE SOURCE OF ITS INFORMATION. THE PAPER'S SOURCE STATED THAT NIEHOUS IS NOT DEAD, AS SOME HAVE SUPPOSED, BUT IS STILL BEING HELD BY HIS CAPTORS SOMEWHERE INSIDE VENEZUELA. HE FURTHERMORE CLAIMED THAT NIEHOUS' ABDUCTORS SENT OWENS-ILLINOIS A PHOTOGRAPH OF NIEHOUS HOLDING A NEWSPAPER OF RECENT DATE CHEST HIGH AS PROOF THAT NIEHOUS IS

STILL ALIVE. ULTIMAS NOTICIAS WAS UNABLE TO DISCOVER THE NAME AND DATE OF THE NEWSPAPER, ONLY THAT THE RANSOM SOUGHT REMAINS BS. 15 MILLION TO BE PAID IN DOLLARS.

COMMENT: ULTIMAS NOTICIAS IS OFTEN GIVEN TO SENSATIONAL REPORTING. POLICE SOURCES HAVE TOLD THE EMBASSY THAT THEY KNOW NOTHING OF THE REPORTED RESUMPTION IN NEGOTIATIONS BETWEEN THE KIDNAPPERS AND OWENS ILLINOIS. O-I REPRESENTATIVES ALSO KNOW NOTHING ON THIS SUBJECT.

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8. FATE OF TAX REFORM PROPOSALS IN DOUBT.

THE EIGHT PART TAX REFORM PACKAGE PENDING BEFORE CONGRESS MAY NOT BE APPROVED THIS YEAR BECAUSE NO CONSENSUS HAS BEEN REACHED ON KEY ELEMENTS OF THE PROPOSALS. FINANCE MINISTRY SOURCES INDICATE THAT THE GOV MAY DECIDE TO ACCEPT A DEFERRAL OF THE FOUR MOST CONTROVERSIAL PARTS (INCOME TAX, TURNOVER TAX, IDLE LAND TAX, SPECIAL RESEARCH FUND) AND PUSH FOR ADOPTION OF THE REMAINDER OF THE PACKAGE. THE REMAINDER COULD THEN BE DEALT WITH IN A SPECIAL SESSION LATER THIS YEAR OR IN THE 1978 REGULAR SESSION, ALTHOUGH FINANCE MINISTER HURTADO WOULD PREFER TO COMPLETE WORK ON TAX REFORM THIS YEAR IN ADVANCE OF THE 1978 ELECTION CAMPAIGN.

9. OTHER REPORTING THIS WEEK INCLUDED NIEHOUS KIDNAPPING UPDATE (CARACAS 5582), VENEZULAN PEOPLE MOVER PROJECT (CARACAS 5617), PROPOSED U.S.-VENEZUELAN ENERGY R&D AGREEMENT (CARACAS 5632), INDUSTRIALIZED CONSTRUCTION TECHNICAL SEMINAR (CARACAS 5649), HUMAN RIGHTS ACTION PLAN (CARACAS 5670), PEREZ STATE VISIT ENERGY ISSUES (CARACAS 5715), INDUSTRIAL OUTLOOK REPORT FOR CHEMICALS/PETROCHEMICALS (CARACAS A-72), SUMMARY OF FOREIGN EXCHANGE TRANSACTIONS - MAY (CARACAS A-79), AND ECONOMIC TRENDS REVISED INDICATORS (CARACAS A-80).  
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